
MEETING MINUTES
BUDGET & FINANCE COMMITTEE
CITY OF FRANKLIN, TENNESSEE
CITY HALL BOARDROOM
TUESDAY, NOVEMBER 29, 2011 @ 4:00 P.M.

Committee Members

Alderman Ann Petersen, Chair
Alderman Brandy Blanton
Alderman Beverly Burger, Vice Chair
Alderman Michael Skinner

P
P
P
P

Other Attendees

Eric Stuckey, City Administrator
Russell Truell, ACA Finance & Administration
David Parker, City Engineer/CIP Executive
Mike Lowe, Controller
Steve Sims, Assistant City Recorder
Alderman Margaret Martin
Alderman Pearl Bransford
Lanaii Benne, Assistant City Recorder
Linda Fulwider, Board Recording Secretary

P
P
P
P
P
P
P
P
P

1. Call to Order

Alderman Petersen, Chair, called the meeting to order at 4:00 p.m., Tuesday, November 29, 2011.

While awaiting the arrival of the auditors and one alderman, the Committee addressed Items 6, 7, and 8 before addressing Item 2 and the remainder of the agenda.

2. Election of Chairman, Vice Chairman

Alderman Skinner moved to approve by acclamation the nomination of Ann Petersen as Chair and Bev Burger as Vice Chair. Seconded by Alderman Blanton. Motion carried unanimously.

3. Approval of the Minutes

Alderman Skinner moved to approve the September 27, 2011 minutes as presented. Seconded by Alderman Blanton. Motion carried unanimously.

4. Audit Presentation – Crosslin & Associates

Dan Miller, Audit Principal, and Dell Crosslin, Concurring Reviewer, Crosslin & Associates presented an overview of the Audit.

Management Judgments and Accounting Estimates

During the year ended June 30, 2011, they were not aware of any significant changes in the methodology surrounding accounting estimates or in management's judgments relating to such estimates.

Audit Adjustments

All entries identified during the audit have been recorded within the financial statements; there were no unrecorded entries.

Significant Accounting Policies

They believe the City's significant accounting policies are appropriate and comprehensive under U.S. generally accepted accounting principles.

Alternative Accounting Treatments

There were no discussions with management in this regard.

Management Consultations with Other Independent Accountants

To their knowledge, there were no such consultations with other accountants.

Disagreements with Management

No such disagreements arose during the course of the audit.

Issues Discussed Prior to Retention of Independent Auditors

Discussions occurred in the normal course of the professional relationship and responses were not a condition of their retention.

Difficulties Encountered in Performing the Audit

No significant difficulties encountered in performing the audit.

Fraud and Illegal Acts

There were no fraudulent or illegal acts identified during the course of the audit, nor were any disclosed to them by management.

Information in Documents Containing Audited Financial Statements

They are not aware of any other documents that will contain the audited financial statements. If such a need arises, they will review the other document to ensure there are no material inconsistencies in the information.

Other Information in the Comprehensive Annual Financial Report (CAFR) of the City

They ensured there are no material inconsistencies or material misstatements of fact in the other information.

Areas of Audit Emphasis

- ♦ Cash and investments, including classification between restricted and unrestricted
- ♦ Capital assets and construction in progress, including infrastructure
- ♦ Receivables, including property taxes, other taxes, grants and other
- ♦ Classification of net assets
- ♦ Long-term debt, including issuance of refunding bonds
- ♦ Accounts payable and accrued expenses
- ♦ Operating revenues
- ♦ Salaries and benefits
- ♦ Other operating expenses
- ♦ Consideration of conference center activities
- ♦ Consideration of net pension and OPEB assets and related impact on financial position
- ♦ Implementation of GASB 54 – fund balance reporting

Other Procedures Performed

OMB Circular A-133 Audit:

Audited the City's compliance with its major federal grant programs. The City's expenditures under federal programs during FY 2011 totaled \$4,845,077. They tested the requirements of seven major grant programs and had no material exceptions. The auditors issued their unqualified opinion on A-133 compliance.

Comprehensive Annual Finance Report

- ♦ 88% of the total assets are in capital assets
- ♦ Access fees and taxes approximately \$7.7 million
- ♦ Total general revenues up \$7.2 million – a positive sign of some economic growth within the City
- ♦ Prior period adjustment relates to the City's net pension asset – 2010 and 2011 contributions more than actuarial assumptions
- ♦ Five new GASB categories
- ♦ Road Impact Fee Fund and Facilities Tax Fund both with negative balances
- ♦ Amendments mainly carryover from previous year into 2011 – \$952,000

Findings:

1. Recommend management review the actuarial valuation performed each year to determine if there is a net pension obligation or asset as a result of differences between actual and calculated contributions. Such differences should be recorded within the statement of net assets to ensure that the City's financial statements are presented in accordance with U.S. General accepted accounting principles.

2. Out of 11 street additions selected for audit testing, seven streets totaling \$5,920,000 were determined not to be assets of the City. The City had not formally accepted them as of June 30, 2011 under the street acceptance policy. The streets were included in a computer tracking system, and were therefore incorrectly added to the streets addition listing prior to formal acceptance. The City's financial records for the governmental activities infrastructure assets and corresponding infrastructure stated in the statement of net assets were overstated. The City subsequently reviewed and removed all unaccepted streets at June 30, 2011.

3. Recommend the City establish policies and procedures that ensure all grant expenditures are charged to grants that are eligible and allowable under program guidelines. The policies and procedures should be in place and operating effectively to ensure that invoices are properly coded and reviewed before they are charged to grants.

City management has addressed procedures to correct all three findings.

5. Conference Center Audit – Crosslin & Associates

The Report on Results of the June 30, 2011 Audit reviewed.

Audit Adjustments

Proposed the following adjusting journal entry:

- ♦ To record current year depreciation expense

Depreciation expense	\$506,808
Accumulated depreciation	\$506,808

The entry identified during the audit is recorded within the financial statements; there were no unrecorded entries

Areas of Audit Emphasis

- ♦ Cash, including classification between restricted and unrestricted
- ♦ Capital assets including additions and depreciation
- ♦ Classification of net assets
- ♦ Due to/from the City, County and Hotel Operator
- ♦ Operating revenues
- ♦ Salaries and Benefits
- ♦ Other operating expenses

Financial Statements for the Years Ending June 30, 2011 and 2010

- ♦ Events at the Conference Center are up 17%
- ♦ Increase in revenue overall
- ♦ 9.5% increase in operating expense
- ♦ Insurance decreased and was rebid
- ♦ Split \$405,000 payment equally between the City and the County

6. Quarterly Budget Amendments – Mike Lowe

Budget Amendments July-September 2011:

♦ Expenditures

- 84 Lumber Property acquisition
- Pole/Mast Arm for Del Rio/Magnolia Traffic Signal
- Chemical Storage Facilities for Jim Warren & Liberty Parks
- Half cost of shared siren with City of Brentwood
- Transfer to Solid Waste Fund (2 replacement transfer trailers)
- Legal Judgment (Compensatory Damages & Back Wages)
- Administrative Reallocation of 2 engineer positions from Planning to Engineering

Eric Stuckey noted the largest item is the purchase of the former 84 Lumber building as the Consolidated Public Works Facility. He explained the City reserved the right to debt finance this if desired; however, staying with cash purchase may be preferable.

Alderman Skinner moved to approve the Budget Amendments and forward recommendation to the Board for approval. Seconded by Alderman Blanton. Motion carried unanimously 3-0 (Alderman Burger was not present).

7. Investment Policy, Update for GFOA Changes – Russ Truell, ACA Finance & Administration

The policy is current and was adapted from the GFOA model policy to the City of Franklin. The minor text changes to conform to the GFOA changes will be incorporated prior to engaging an investment advisor to professionally manage money on a regular basis.

✱ Alderman Burger arrived at 4:07 p.m.

Alderman Skinner moved to incorporate the minor text changes in the investment policy and forward the policy to BOMA. Seconded by Alderman Burger. Motion carried unanimously.

8. Consideration of Contract Award to Davidson Fixed Income Management of Portland, Oregon, to Provide Non-Discretionary Investment Advisory Services for Certain Non-Pension Assets of The City at the Fee Rate of \$25,000 Per Year for Three (3) Years, With Two (2) Options to Extend the Term of Service at the Same Fee Rate Per Year, Each Time for Up to One (1) Additional Year, for a Maximum Possible Term of Service of Five (5) Years Total, for the Finance Department (Purchasing Office Procurement Solicitation No. 2012-004; Outsourcing of Services not Separately Budgeted for Fiscal Year 2012; Contract No. 2011-0172) – Russ Truell, ACA

Mr. Truell referred to a memo in the packet written by Purchasing Manager Brian Wilcox. Mr. Truell then explained the reasons why it would be beneficial to hire an investment manager for the non-pension portion of the City's investment portfolio. The appropriate bidding process was followed. The purpose of engaging a manager is to bring at least the same yield as when managed internally, but with less risk; protect the assets we have. Staff does not have the time to devote to these investments every day.

Alderman Burger had questions about the \$25,000 per year for three years. Mr. Truell responded that either party can request release with a 30-day notice. Eric Stuckey added that their work can be evaluated and if unsatisfactory, the City can request release.

Mr. Truell recommended the flat value fee plan be approved. The firm will provide information on an ongoing basis and will make a presentation to the Committee at least annually.

Alderman Burger moved to approve the flat value fee plan contract award and forward to BOMA for consideration. Seconded by Alderman Blanton. Motion carried unanimously.

9. Utility Billing/Policy Changes – Steve Sims

Receipting by the City – Payment of Transaction Fees

Transaction Fees – Credit and Debit Cards

Mr. Sims noted that customers want the convenience of paying by credit/debit card for the myriad goods and services provided by the City: Utility services, tax collection, issue of permits/licenses for certain privileges, and payments for Court fees/fines for traffic and code violations. The City currently accepts credit/debit cards for online payments of utility bills, property taxes and yard sale permits with the customer paying the fee to the processor. Payment via phone is accepted for City Court fees/fines (fee applies) and for payments in the office where the fee is absorbed as part of the Court cost applied. Financial institution fees for processing credit/debit cards vary based on the nature of the transaction. Fees can vary but generally are in the 2-5% range for general credit card transactions. The fundamental challenge is to determine who pays the credit/debit card processing fees charged.

Fees paid to the City's processor last fiscal year were less than \$5,000 on about \$150,000 in payments made in the office. In addition, customers called in and paid about \$110,000 over the phone and paid the fee. This cost was offset by a significant reduction in bad checks and increased payments.

Russ Truell noted that auto-pay is more and more prevalent and that needs to be incorporated into the new utility billing software. The more cards taken, the lower the fees will be. Eric Stuckey commented that citizens look at the City the same as other businesses with fees built into cost structures.

Alternatives considered:

1. Continue the same course
2. Extend options to accept credit/debit cards with the City paying the fee for payments made in the office
3. Extend options to accept credit/debit cards with the customer paying the fee for payments made in the office
4. Extend options to accept credit/debit cards with the City paying the fee for payments made online
5. Extend options to accept credit/debit cards with the customer paying the fee for payments made online
6. Extend options on a case-by-case basis using recommendations from Department Heads
7. For fees paid by the City, review costs of service delivery and revise the Municipal Code accordingly to recover the costs and obtain the desired outcome

Staff recommends the Budget & Finance Committee accept this status report and that guidance be provided to pursue options 6 and 7.

Committee members requested copies of the flow chart Mr. Sims created showing all services for which the City accepts money. In addition, members asked for strategies.

Alderman Skinner moved to accept the status report and request that staff pursue scenarios involving options 6 and 7, and bring it back to Committee. Seconded by Alderman Blanton. Motion carried unanimously.

Collection of Bad Debts

Customers who do not pay their utility obligations on time incur late fees, disconnection for nonpayment, and finally transfer of the account to a third party Collections Agent. NSF instruments (checks and drafts) are also transferred to the agent as well. Outstanding taxes are pursued through separate actions as are permits/licenses. Outstanding court obligations are pursued through in-house counsel.

There are few bad debts and most are water utility. In 2011, 465 accounts, \$77,000 in outstanding indebtedness turned over to the Collections Agent.

Uncollected obligations affect the rates and fees charged to all customers. Approximately \$146,000 in outstanding utility bills at the end of FY2011, and \$650,000 in outstanding obligations owed the Court.

Discussion:

- ♦ Impossible to collect debt older than the last decade because the majority of those customers are dead or incarcerated.
- ♦ Need some way to clean-up the debt
- ♦ Look forward, not back as to collecting very old debt
- ♦ Need a process for the future – better business practice
- ♦ Should not tie up City Attorney with an abundance of bad debt collection
- ♦ Some citizens have accumulated hundreds of dollars in parking fines
- ♦ Make sure the City has done all it can to collect fees and fines
- ♦ Committee wants to review the documentation of old debt (\$450,000) and information on court cases
- ♦ Currently approximately \$7,000 outstanding parking tickets

Alternatives considered:

1. Continue the same course and not pursue outstanding court fees
2. Pursue legal actions using our Legal Department
3. Pursue using a competitively bid contract to pursue outstanding obligations

Staff recommends pursuit of option 3. Committee consensus was to review the chart next meeting.

10. **Monthly Reports (Information Only)**
- a) **Quarterly Budget Report – Mike Lowe**
 - b) **Bond Use Summary Update – Mike Lowe**
 - c) **Sales Tax Report – September 2011**
 - d) **Property Tax Report – Month of September**
 - e) **Construction Activities Report – Month of October**
 - f) **Transit System Report – Month of October**
 - g) **Conference Center Report – Month of October**
 - h) **Fuel Hedging Report – October 2011**

Reports filed with the minutes

Russ Truell complimented Mike Lowe on his redesign of the quarterly report. The report is posted on the City's website.

ADJOURN

Alderman Skinner moved to adjourn. Seconded by Alderman Blanton.

Meeting adjourned 5:52 PM

Ann Petersen, Chair

Minutes prepared by Linda Fulwider, Board Recording Secretary, City Administrator's Office - 2/14/2012 8:32 AM